

— EDITED TRANSCRIPT —



HUDSON INSTITUTE'S
BRADLEY CENTER
FOR PHILANTHROPY
AND CIVIC RENEWAL
presents

THE FOUNDATION AND THE LIBERAL SOCIETY:
A DISCUSSION WITH KENNETH PREWITT

May 5, 2004, 11:45 to 2:00 p.m.

On May 5, 2004, the Bradley Center held a small roundtable discussion with Columbia University's Kenneth Prewitt on a question too seldom considered, namely the place and purpose of philanthropy in a modern liberal democracy. Joining the Bradley Center were fourteen of the most engaging minds on those two subjects—philanthropy and modern liberal democracy. Kenneth Prewitt's essay "The Foundation and the Liberal Society" was required reading and served as a basis for the discussion.

Kenneth Prewitt is Carnegie Professor of Public Affairs at Columbia University's School of International and Public Affairs. Hudson Institute Senior Fellow and veteran, award-winning University of Chicago professor Amy Kass moderated the discussion.

TABLE OF CONTENTS

I.	Participant List	2
II.	"The Foundation and the Liberal Society"	3
III.	Edited Transcript	15

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The Foundation and the Liberal Society

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I. The Question Posed

This essay asks whether nations that do not have a modern philanthropic foundation sector should bother to establish one. What is the rationale for the private foundation – what does it offer that cannot be provided by the state, the market or by any number of nonprofit institutions already active in society?

The United States offers the clearest example of what is intended by the phrase: “modern philanthropic foundation sector.” Initiated in the early decades of the 20th century, American foundations have since experienced phenomenal growth – as indicated by their numbers, asset base, professional staff, and scope and reach of grant-making. The sector is strengthened by its internal differentiation – community foundations, operating foundations, family foundations, corporate foundations, and, in greatest number, independent multiple-purpose grant-making foundation. Some foundations primarily work locally, while others have offices around the world; some offer core support grants, while others focus on projects; some partner with for-profit firms, while others engage public policy via analysis and advocacy. This large, differentiated sector has established a robust infrastructure: peak organizations such as the Foundation Center and the Council on Foundations, sector-wide publication and public relations outlets, rapid response to legislation that could affect how foundations operate, university programs for relevant research and training, and a proliferation of networks (known as affinity groups) designed to coordinate program priorities and strategies from one foundation to the next.

No other nation has a foundation sector comparable in size, differentiation and infrastructure, though other nations, especially in Europe, with smaller and less developed sectors, are attempting to expand and institutionalize according to their own rationales.

In this essay I draw on the U.S. case not to suggest that it should, or can, be adopted elsewhere, but because it offer empirical grounding for asking a basic theoretical question: What is the rationale for a robust private foundation sector?

In addressing this question, I do not have in mind all American institutions that call themselves foundations – which number more than 60,000. Nor do I have in mind the significantly larger dollars that flow from private giving to philanthropy more generally. Larger yet is the nonprofit sector itself. The revenues of that sector come only 20 percent from private philanthropic and

charitable giving. And only 10 percent of this amount comes from foundations. That is, the 60,000 foundations in America account for about two percent of the revenues of the non-profit sector.

And we will not concern ourselves with all 60,000 foundations, but only those with assets large enough to require a professional staff engaged in systematic grant-making across a number of issue-areas. This restrictive definition covers fewer than 200 foundations in the United States. Indeed, only half or 100 foundations have an asset base sufficient to give more than \$12 million a year in grants. One could narrow the sub-set even more. The 25 largest foundations account for more than 30% of the sector's asset base but represent only .0004% of American foundations.

Our focus, then, is not on the nonprofit sector, which is vastly larger in assets and program reach than foundations. It is not on philanthropy, which in the aggregate is nearly 10 times larger than foundation giving. And even in the foundation sector, we focus on a numerically small sub-set.

With this restrictive focus in mind, we turn to a conceptually-grounded understanding of America's private foundation sector.

A generally agreed upon conceptual definition of the American private foundation is "untaxed private wealth, privately managed, on behalf of the public good." To this useful starting point, I add a few other criteria that specify the type of foundations discussed in this essay.

Endowment. We focus on endowed foundations, those having a capital asset allowing them to continue their work indefinitely without having to raise additional funds. These foundations finance public goods from an asset they control and replenish through market investment. Collectively, they design grant-making programs that reach to many thousands of other, mostly unendowed, institutions.

These other nonprofit institutions that manage untaxed funds on behalf of the public good are financed through charitable donations, fees for service, membership dues, and government grants or contracts. Some may raise endowments, universities and hospitals are familiar examples, but only in order to fund their activities, not to make external grants.

Social Change. The type of foundation here focused on generally see themselves as bringing about social change, either directly or by supporting other organizations dedicated to changing social conditions. That is, the public works of the foundations differ from charity or service delivery, which characterizes the work of many nonprofits. The familiar metaphor, at least in the American tradition, is "root cause," first made famous by John D. Rockefeller. In establishing his philanthropies, Rockefeller commented: "I do not believe in giving money to street beggars, but this is not reason why one should be exempt from doing something to help the situation represented by the street beggar."¹ To give money to the beggar is charity, is offering the band-aid of temporary relief. In contrast, philanthropy, or as Rockefeller put it, "scientific giving," is changing the conditions that give rise to begging. Charity feeds the hungry, cares for the sick, shelters the homeless, but because it does not change what causes hunger, illness, or poverty, it

¹ Rockefeller (1984), p. 110.

cannot stop the endless flow of those in need. “The best philanthropy,” wrote Rockefeller, “involves the search for cause, an attempt to cure evils at their source.”² This is Rockefeller’s formulation of the justly famous root cause metaphor.

This metaphor is not altogether satisfactory; it is quite difficult to pin down in practice. How deep do the roots go? While it is clear that relief to victims in the aftermath of an earthquake is charitable in motivation, urging building codes that would minimize loss of life in earthquake prone areas is more proximate to relief than, say, funding a program in a School of Engineering that studies earthquake resistant construction design. But even this would not qualify as a “root cause” grant in comparison to basic research on plate tectonics that might, someday, allow science to predict earthquakes with sufficient lead-time to evacuate the population at risk.

Thus, though we tend to describe the prototypical American foundation as one that generally attacks “root causes,” the social change vocabulary offers a more satisfactory definitional criteria. At the core of what nearly all foundations describe as their mission is the intent to make the world a better place, to improve on the current order of things: less of the bad things -- poverty, war, sickness, illiteracy, violence, parochialism, hunger; and, conversely, more of the good things -- freedom, art, understanding, opportunity, security, education, health.

Time-Frame. Foundations with their own endowments, and focused on social change agendas, generally operate with a time-frame that stretches across years and even decades. The much celebrated “green revolution” funded by the Rockefeller Foundation involved grants that spanned several decades, and in some respects continues today, more than a half-century from the beginning point. The Ford Foundation set out to bring area studies to American universities in the 1950s, and is still today actively advancing this goal, suitably redefined to accommodate 21st century international realities. There are many such examples.

Here the analytic point is that foundation grant-making strategies are not governed by election cycles, annual reports to stockholders, short-term bottom line considerations, or any other externally mandated constraints on the time-frame chosen for programs or even individual grants. The Packard Foundation, as an example, has since its founding in 1964 annually given a grant of approximately \$30 million to one grantee, and intends to continue with this grant into the indefinite future.

The permissive time-frame gives rise to a number of terms favored by foundations – risk-taking, taking the long view, flexibility, innovative, strategic, entrepreneurial, and the like.

II. Privileged Status

In the comments to follow, the (American-style) private foundation is an institution endowed with untaxed private wealth, used to make grants to other institutions that are expected to advance the public interest by facilitating desired social change. This is an institution whose privileges include wide latitude in deciding how to spend tax-free dollars, as long as this expenditure serves a public

² Cited in Fosdick, p. 22.

interest. The “public interest” is itself largely self-defined, and generally includes some reference to social conditions that will be changed as a result of foundation intervention.

What is the justification for these unusual privileges? What explains the legitimacy of the private foundation sector?

Though located in the sphere that is neither state nor market, the foundation shares traits with both. With the state it has an obligation to provide public services or goods that do not occur through the normal functioning of the market. But the foundation has no coercive powers, cannot legislate or regulate to bring about desired social conditions. Thus, though taking on a central function of the state -- protecting and extending the public good – it carries out this mission by creating incentives rather than through coercion. The foundation, then, shares with the market a reliance on incentives. But the foundation earns no profit, offers no return to the investment of its donor(s).

These similarities and distinctions frame a question that though simple in the asking is difficult in the answering – what, specifically, do foundations accomplish or represent that would otherwise be missing in society? Do they serve the public interest in some manner that is superior to the combined efforts of the government, market actors, and other institutions in the nonprofit sector?

The privileges granted to the foundation assume reasonable answers to such questions. Because these privileges start with untaxed wealth, we presume that foundations accomplish things that the government, were it to capture that wealth through its powers of taxation, would not or can not accomplish. Because these privileges include freedom to set priorities irrespective of market demand, we presume that foundations can offer what the market does not or cannot. And a permanent endowment means that the foundation is privileged in ways denied to other nonprofit institutions, which are in continuous search of donations, member dues, fee-paying customers; and, as noted below, are accountable in ways the foundation need not be.

One explanation for the privileged status of American foundations (and for the nonprofit sector more generally) is that they serve population groups too poor to purchase from the market and politically too weak to matter to the state.³ If private foundations want to provide, say, college tuition for students of poor families, this is welcomed because it relieves what will be demands on the government or would reveal a failure of the market.

The argument that the market is indifferent if foundations give services to groups too poor to purchase them makes sense only if market indifference evaporates when profit-making opportunities appear, even opportunities initiated by private foundations. The hybrid seeds of the famed Green Revolution emerged from research institutions funded by the Ford and Rockefeller foundations, but were quickly commercialized. A sector of the higher education system – low-end career preparation – is suddenly viewed as a profit-making enterprise, and today millions of students purchase education from for-profit providers. When the market actors discover new profit opportunities, they are quick to oppose competition from taxpayer-subsidized enterprises

³ DiMaggio & Anheier, 1990

(the university bookstore is often cited in this regard). In fact, the foundation takes pride if the outcome of a grant investment is “taken to scale” by commercial enterprises.

The proposition that foundation privileges derive from providing what market actors can safely ignore is persuasive, but only partially so. The same is true if we shift attention to the state. Certainly governments, throughout history, have welcomed poverty relief or health provision by charitable organizations. But these same governments are less welcoming when the private foundation threatens to empower the disenfranchised or alter the balance of political forces. France under the sway of post-revolution political doctrine closed down Catholic foundations. Philanthropy in pre-colonial Africa was used to establish local authority, and disappeared when colonial powers created authority outside the traditional culture. Congressional committees in the United States have periodically investigated foundations viewed as too political in their grant-making, and there are laws limiting what foundations can do in the legislative and electoral arenas.

These examples suggest that only up to a point is the foundation granted a privileged status because it takes up tasks neither government nor market actors want to worry about. The “root cause” metaphor indicates why tension is implicit in what foundations claim they are doing.

In specifically rejecting charity as the philanthropic project and focusing instead on changing underlying conditions, the American foundation is in continuous search of market and policy failures. The foundation can be successful in its mission only by correcting for such failures as it itself defines. Market actors pollute? -- fund studies of regulatory reforms or support advocacy groups organizing consumer boycotts. Market actors ignore diseases of the poor? -- subsidize R&D on tuberculosis or malaria and then create pressure for products to be made available at subsidized costs. Public schools are failing? -- fund policy analysis, voucher programs, or local reform efforts designed to change how the government is managing public schools.

A rationale for the private foundation premised on the assumption that its privileged position results primarily from doing what the state and market allow it to do does not explain what happens when the foundation intrudes into their respective spheres. The American foundation is “intrusive” in this regard. Yet the sector continues to expand in numbers, assets and program reach. To explain this requires a fuller and more convincing rationale.

III. Additional Propositions

There are other propositions, which though less focused on specific privileges do offer rationales for the establishment of the modern foundation sector in the U. S. They all have merit, but neither individually or in combination are they fully satisfactory.

Redistribution. It is often suggested that foundations, like the deep tradition of charity from which they come, are redistributive and that this explains how they gained prominence in American society. Foundation grants, in this explanation, redirect money from the wealthy to the poor. This answer is especially important where the tax code exempts from taxation the private funds that establish foundations. Because these funds do in fact come from the wealthy, and

because foundation programs do often disproportionately benefit the less well-off, redistribution presents itself as a plausible explanation for the public encouragement of foundations.

Redistribution may be part of an explanation. But the magnitude of redistribution is difficult to pin down. Funds that establish foundations would generally be taxed -- at rates from 20 to 70 percent depending on inheritance and estate tax policies. To calculate the redistributive effect, then, we should not start with 100% of the gift that endows the foundation but with a smaller fraction depending on tax rates. We also note that a great deal of grant-making is not redistributive. It supports universities, medical research, museums, operas, nature preserves – public goods used more by the reasonably well-off than the poor.

There are complex and unresolved empirical issues surrounding the measurement of redistribution, and it is difficult to be definitive regarding its directionality or magnitude. The benefits are likely, on balance, to flow downward though probably less dramatically than foundation claims imply.⁴ Even if the net flow is redistributive, there remains the question of whether the foundation asset is more redistributive than had it been taxed in the first place. It is suggestive that European countries, with their comparatively small foundation sectors, have preserved a strong welfare state based on higher personal and estate taxes than the U.S. will tolerate.

There is a further reason to doubt the depth of the redistribution rationale. There is an irony in the fact that foundations result from the accumulation of substantial private wealth and yet in instance after instance declare that their mission is to improve the lot of the poor and powerless. They go about that mission by helping to lower the barriers to upward mobility, by working to insure basic civil and political rights or by contributing to education and health for the poor. Foundations have not, however, gone about that mission by calling into question the political-economic arrangements that allow for great inequalities in wealth acquisition. This despite the oft repeated claim that foundations will find and eliminate the “root causes” of disease, deprivation, and discrimination. Private capital accumulation in very large amounts is unlikely to be viewed by wealthy philanthropists as a root cause.

Neither empirical evidence nor philanthropic logic leads easily to the conclusion that redistribution can serve as the primary rationale for the ubiquity of the American private foundation.

Cost-Effectiveness. A different argument suggests that foundations and the nonprofit organizations they fund have a better ratio of accomplishment to funds spent than does the public sector.⁵ The flexibility and imaginativeness of foundations, at least compared to cumbersome, risk-adverse government agencies, is given as the reason.

⁴ The most careful analysis available concludes: “there is great diversity within the nonprofit sector, and no overarching conclusions about distributional impact can be made.” But there is no “evidence that benefits are dramatically skewed away from the poor and toward the affluent.” Clotfelter (1992), p. 22

⁵ Weisbrod, 1988 .

This is a difficult hypothesis to test, and in one important respect is counter-intuitive. Efficient use of resources presumes a bottom-line, a way to hold those who allocate funds accountable for their performance. The market is viewed as having the most reliable bottom-line -- products and services are purchased or they are not. Inefficiency is rapidly followed by ruthless punishment in shrinking markets and falling share prices. For government, the softer but still meaningful bottom-line is public support. The electoral theory of democracy rests on the assumption that there are always competitors eager to claim that they can more effectively discharge public responsibilities than can the current power-holders.

Nonprofit institutions other than foundations also have a version of the bottom-line -- for if their services are not cost-effective, there are always competitors trying to attract the membership base, user fees, tuition payments, government contracts or public acclaim. As noted earlier, the competitors might even be found in the for profit sector, as in the commercialization of segments of the higher education market.

The foundation is uniquely protected from bottom-line preoccupations -- no shareholders, no customers, no voters, no campaign contributors, no dues-paying members, and no clients who can withhold financial or moral support. Even attempts to hold foundations accountable to the wishes of the original donor turn out to be difficult. While it is easy to understand why foundation officers claim to be excellent stewards of funds in their trust, the conditions that make foundations what they are -- latitude of choice and absence of external accountability -- make this claim difficult to assess.

Social Change. Foundations operate from an implicit if not explicit notion of how their philanthropic dollars can change the underlying conditions that lead to bad things in human history. Many of the cliché terms found in foundation materials reflect this: leverage, go to scale, make a difference, counter-cyclical, venture capital, strategic partnerships, and so on. These terms are in search of the point of intervention that increases the odds that foundation funds will bring about desired social change. Does the foundation presume that ideas drive change, or that technologies do, or social movements, market incentives, government interventions, moral exhortation? If ideas drive change, invest in research and intellectual efforts; if government interventions are more important, invest in policy analysis and advocacy; if exhortation matters, invest in public education; if it is markets that count, practice entrepreneurial philanthropy. Grant making seeks the point of leverage judged to be most productive of the social change favored by the foundation.

The popularity of the social change rhetoric is simultaneously a way for the foundation to talk to itself about its aspirations and a way to justify itself to others. Bringing about desirable social change is probably the most common rationale advanced on behalf of foundations. There is no doubt that the American private foundations can claim credit for a long and still growing list of social benefits, starting with Carnegie's libraries and Rockefeller's public health campaigns.

The Council on Foundations shares with its members a list of ten foundation achievements which they might cite in explaining to the public the importance of foundations. It is an interestingly eclectic list: the 911 system for emergency calls; the Hospice movement; the Pap Smear in cancer

treatment; Public Libraries, here citing Carnegie; the Polio Vaccine; Rocket Sciences; Sesame Street; White Lines on Highways; the Green Revolution, and Yellow Fever vaccine. Other thoughtful observers of foundation history add to this list such accomplishments as the Ford Foundation's long investment in area and international studies, the Open Society of George Soros, the Annenberg Foundation's school reform efforts, W.W. Kellogg's support of the community college movement, early research on AIDS funded by the Aaron Diamond and the Robert Wood Johnson Foundation, and the MacArthur Foundation's transformation of the field of security studies. Also appearing on many lists is the concerted effort by a handful of conservative foundations to change some of the basic premises of the welfare society that, in some accounts, led to the welfare to work reforms in the 1990s.

Though not wishing to subtract from the worthwhile ness of these achievements, skeptics might ask: How can we assess what would have been achieved in these domains in the absence of private foundations – for in practically none of the examples cited were foundation funds the sole source of support. Also, how can we assess the magnitude of social change in relation to the funds spent. There is no metric of foundation impact; there is not even a theory of social change that might point to a measurement strategy. We are left with case studies, anecdotal evidence, and often self-serving claims from foundations themselves.

For the sake of argument, however, we can set aside the skeptic's question, and simply assert that significant, specific achievements can be attributed, at least in part, to foundation grant-making.

What cannot be claimed, it seems to me, is foundation credit for social change -- if we take that term to mean change at serious scale, which benefits large numbers of people, which is consequential over an extended period.

To make this point, I refer you to the United States in the second half of the 20th century. This is period in which the philanthropic foundation sector came to maturity. Foundations accumulated substantial resources, had strong and self-confident leadership, enjoyed widespread public support, and had ample opportunity to engage the standard repertoire of foundation causes. We ask of this period, what were the significant social changes and what was the role of foundations in shaping them?

It was a half-century of enormous cultural change. The 1950's incubated the civil rights movement, certainly a transforming moment in American history. But this was a social movement organized principally by African-American churches. The university-based anti-war movement challenged authority figures and led to participatory democracy practices as well as greater transparency in government and business. The feminist movement rejected assumptions about the proper role of women in society, leading to changes felt in every corner of the world. Gay and lesbian rights came out of the closet. Environmental causes attracted their own mass base.

American foundations played supportive roles, though largely in an attempt to catch up with forces far more powerful than any they could have launched. Consider the environmental movement – wide scale public advocacy on issues ranging across climate change, ozone depletion, energy inefficiencies, recycling, air and water quality, toxic waste, and sustainable development.

Government funded science and university research was critical to shaping what became the new environmental agenda. Membership based organizations, funded by dues and private contributions, forced policy changes. Public attitudes changed in response to media coverage and to civic leaders and politicians as they adopted environmental causes, often in response to electoral pressures. There were foundation funds in this mix, importantly so, but they represented a fraction of the research, advocacy, and public education resources.

The latter half of the 20th century also witnessed a seismic shift in assumptions about the respective merits of the public and private sectors. The Reagan-Thatcher years took wealth redistribution off the political agenda. The view that a regulated economy is a more just economy was challenged. The belief that the state had responsibilities for the vulnerable gave way to privatization. The political left adopted a “third way” in which the public good is, apparently, better served under liberal market assumptions. Though a few conservative foundations, and the think-tanks they supported, worked hard on behalf of this large-scale shift, and provided useful policy arguments, a political transformation of this magnitude required electoral energy and funds far beyond anything foundations could offer.

And, of course, the most sweeping technological change since the introduction of fossil fuels helped define this half-century. High speed computers -- with their implications for how we learn, work, and play – came from the market, leaving to the nonprofits worries about the digital divide, the promise of distance learning, or the hope that poor countries can propel themselves into the modern era on the back of the IT revolution. These are not small matters, and are fitting as foundation programs. But, again, it is foundations doing what they can to minimize harm and maximize good of large transformations well beyond their control.

The conclusion I reach is that foundations are marginal rather than central actors when it comes to large-scale social change – which results from social-political movements, shifts in political ideology endorsed by the mass electorate, and technology-driven market forces. Foundations can work to redirect these changes at the margins; they can selectively and partially prevent unfortunate side-effects; they can help bring causes to public attention. These are not trivial achievements, and they are properly celebrated in foundation circles. But to tie the rationale for the private foundation to its capacity to bring about social change is, I suggest, a claim not confirmed by history, at least if we have in mind change at serious scale.

Pluralism. Additional explanations for the ubiquity of American foundations and their public acceptance are found in arguments for pluralism. Such claims have merit. Foundations do play an important role in a strong nonprofit sector that is a necessary and perhaps even sufficient condition for pluralism. This sector provides a more diverse collection of services, institutions, and opportunities than the state. The modern state is expected to provide approximately the same services or opportunities for all citizens, or at least all citizens within a category for which the service is provided. Diversity within the nonprofit sector allows for social experimentation, for trying out the odd practice or promoting the unpopular art form. Nonprofits contribute to pluralism because they are not beholden to the consensus-forcing expectations placed on the public sector, and are not obligated to realize a return on an investment.

The undisputable contribution to pluralism of the nonprofit sector, however, is only of limited use in justifying the private foundation. The vast, well-funded U.S. nonprofit sector receives perhaps two percent of its funding from private foundations. Nonprofits and their contribution to pluralism would remain a formidable presence in American public life without this trickle of funds. The obligatory reference to Tocqueville at this stage in the argument reminds us that an active, voluntary association life in American society long predates the rise of the modern foundation. Comparative analysis is a further reason for caution. Even a cursory look beyond the U. S. offers numerous instances, particularly in Europe and Latin America, of strong nonprofit sectors in the absence of private foundations similar to those in the U.S.

The topics now reviewed – redistribution, cost-effectiveness, social change, pluralism – each contribute to an explanation for the growth and social acceptance of foundations in America. But, finally, they fall short. The extent of redistribution, the warrant for cost-effectiveness and the amount of social change are, I believe, not sufficient as a rationale for the American foundation. Pluralism cannot serve as the rationale, because it rests on a nonprofit sector that is way beyond the scope of anything private foundation funds can support.

IV. The Liberal Society

In conclusion, I turn to the broad principles of the liberal society in which, I suggest, we find a more satisfactory rationale for the prototypical American foundation. We can proceed empirically, with a few observations about American history; and also theoretically, by offering a more abstract account.

Notes from History. American liberalism has a long, close association with what theorists describe as the weak state tradition. American constitutional doctrine tried to ensure this through its establishment of a weak executive, separation of powers, extensive checks and balances, frequent elections and strong state's rights. A minimal government implied minimal interference in the exercise of individual choice. The corollary is that the private sector, organized as for-profit firms *and* nonprofit institutions, will do what would otherwise be government's responsibility. This produced tax policy hospitable to a robust nonprofit sector and to charity and philanthropy.

This general outlook was well-established in the latter decades of the 19th century, when rapid industrialization occurred. Liberal economic doctrine, buttressed by Social Darwinian thinking, allowed individuals who controlled oil, steel, banking and transport to amass huge private fortunes. Conspicuous consumption could rid its owners of some of this wealth, but for some it was too great to spend and for others, ostentatious spending was limited by religious scruples.

These were the Protestants of the "protestant ethic" so richly analyzed by Max Weber. This ethic emphasizes discipline and deferred gratification, and celebrates the thrifty, hardworking business drive that shaped modern capitalism. But while smiling on the greatest possible productivity, the Protestant ethic frowned on luxurious enjoyment of the wealth so earned. If work is to manifest God's glory, the profits of work are to be reinvested in that which is socially beneficial. This was a convenient doctrine for those, such as John D. Rockefeller and Andrew Carnegie, who were

both devoutly religious and wealthy beyond easy measure. Rockefeller put it bluntly: “A man should make all he can and give all he can.”⁶

If wealth free of taxes accumulates in amounts too substantial to be consumed or given away in one’s lifetime, and beyond what can be bequeathed to children, there are a limited number of ways to dispose of it. One way, of course, is to create institutions that link private funds to public purposes. This is the best of both worlds – maximum public works with minimum control over private choices.

This rationale for private foundations, first formulated in a period of laissez-faire economics and minimal interference with private control of wealth, was not seriously questioned across the 20th century, even when the assumptions of classical liberal doctrine gave way to the new liberalism and Keynesian economics. By the end of that century, another surge of private wealth, based on the new information technology, found its way into private foundations. In terms that echo the late 19th century, the most recent captains of industry -- Gates, Soros, Packard, Hewlett, Moore – speak of stewardship, of an obligation to return to society some portion of what liberal doctrine allowed them to amass.

These historical observations help explain the tradition of American private foundations, but of course foundations, including many which meet our restricted definitional criteria, are not unique to America. A more theory-based observation is in order.

An Analytic Comment. Public goods are under produced by free market transactions. There arises, then, a social demand for public goods, and for their corollary, a public sector. The state can produce public goods by regulating market actors, and by exercising such powers as taxation, conscription, and eminent domain. In the liberal society, however, there is always the concern that an interventionist government will hamper market flexibility or encroach on personal freedoms. Public goods too aggressively provided threaten liberal values.

The test, then, for the liberal society is to have the greatest amount of public goods at the least cost to economic and political freedoms. A nonprofit sector which does not have to return a profit and which has no coercive power, will, then, produce public goods at minimal risk to personal freedoms. That is, what the liberal society wants, and what religious charity, private patronage and philanthropy provide, is a realm “where individuals undertake voluntary actions in concert with others to realize their version of the public good.”⁷

The social legitimacy of the nonprofit sector arises out of its insistence that public goods be provided, but it retains the right to push back if the state encroaches too far into the sphere of personal freedom.

If this helps explain the nonprofit sector, how does the privileged private foundation fit in? Recall that the focus is on the endowed foundation, one not beholden to clients or customers. Its mission

⁶ Nevins (1953), Vol. II, p. 191.

⁷ Illchman, Katz and Queen (1998), p. xiv.

is, on the whole, more permissive and open-ended than other endowed institutions that have only institution-specific purposes. The foundation, in its focus on underlying social conditions, is free to choose (and change) its priorities and the manner in which it will serve the public interest.

This is an institution uniquely positioned to represent liberal values. It is a non-coercive funder of public goods. Its untaxed wealth, unhampered by much in way of accountability provisions, is, I suggest, largely granted on this basis.

It need not do its job well. For example, it may not be redistributive or cost-effective or capable of bringing about important changes. These are matters for empirical determination, and have eluded serious study during a century of enormous growth in the foundation sector. My question is not how foundations perform against their self-defined mission statements. It is not even whether they are particularly important in sustaining pluralism, at least in comparison to the much more extensive civil society, which is what protects pluralism.

My question is what do foundations do, or stand for, that explains why they have been particularly favored in the United States, and perhaps why they are growing in favor across Europe. My simple proposition is that foundations mirror a central quest of the liberal society – how to attach private wealth to public goods without encroaching on individual freedom.

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EDITED TRANSCRIPT

THIS TRANSCRIPT WAS PREPARED FROM A TAPE RECORDING
AND EDITED BY PARTICIPANTS.

WILLIAM SCHAMBRA: My name is Bill Schambra and I'd like to welcome you all to the Hudson Institute and in particular to the Bradley Center on Philanthropy and Civic Renewal today. On behalf of Krista Shaffer and myself, Krista being the other half of the project and the person who's responsible for our accommodations and lunch and whatnot.

I thought it would be interesting today to have a fairly high level of conversation free of an immediate public but with an ultimate public in mind—our intent is to make public a transcript on the internet—because I think this is quite an interesting topic and a fascinating paper.

At a dinner in 1911 celebrating the tenth anniversary of the Rockefeller Institute, an outpost of John D. Rockefeller's burgeoning philanthropic empire, his chief advisor, Frederick Gates, had this to say to the assembled researchers. "As this medical research goes on you will find out and promulgate, as an unforeseen byproduct of your work, new moral laws and new social laws, new definitions of what is right and wrong in our relations with each other.

You will educate the human conscience in new directions and new duties. You will make it sensitive to new distinctions. You will teach nobler conceptions of our social relations and of the God who is over us all."

This speech, incidentally, is to be found in Professor Hammack's fine reader *Making the Nonprofit Sector in the United States* [Indiana University Press, 2000].

Even granting that the speech, no doubt, followed a number of celebratory toasts, this is a more than ordinarily intoxicating vision of what philanthropy might accomplish for liberal democracy and indeed for humankind.

How poignant and painful it is, then, for us to read the scandalous accounts in the *Boston Globe* and other investigative journals which might lead the average reader to believe that today's philanthropy has no higher purpose than to fund the wedding of a foundation president's daughter.

Is there a justification for institutionalized philanthropy today that may fall somewhat short of getting us into a right relationship with God but that nonetheless aims somewhat higher than underwriting private wedding ceremonies?

That's the question before us, both as a liberal democracy making recommendations to the rest of the world about the institutions that explain American success, and as a group of scholars gathered in this room today—some of whom have long-established credentials in philanthropic studies, others of whom have written and spoken widely about liberal democracy and the religious, cultural, and political institutions that contribute to its survival.

To help us meet this challenge, we have as the basis for our discussion an essay by Columbia University's Kenneth Prewitt, who spares us the usual cheery recitation of philanthropy's monumental achievements and provides instead a sober, if not sobering, look at the various contemporary justifications advanced for institutional philanthropy.

We have as our discussion leader Amy Kass, an award-winning teacher at the University of Chicago, a friend of many of you here today, a senior scholar at the Hudson Institute, and a senior fellow with the Project on Civic Reflection at Valparaiso funded by the Lilly Endowment

and managed by Elizabeth Lynn, who is with us today. Thank you, Elizabeth, for helping to make Amy's work with us possible.

So let's get on with this important work and for that purpose I turn the proceedings over to Amy Kass.

AMY KASS: I, too, welcome all of you with great pleasure. As Bill has already suggested, the time is certainly ripe for the inquiry that Ken Prewitt has opened. Indeed, for anyone interested in philanthropy or, more specifically, the nature and future of private foundations, he raises the most fundamental issues.

To wit: What does the private foundation offer that cannot be provided by the state, the market, or by any number of nonprofit institutions already active in society? What justifies its privileged position? What is its significance vis-à-vis liberal society, in general?

Limiting himself to the group of private foundations that are endowed with untaxed private wealth, that have professional staff, that make grants to other institutions, and that are expected to advance the public interest by pursuing social change, and taking his bearings from the activities and projects supported by this small subset of foundations, Ken Prewitt's answer to his question of what they have to offer is, in short, "not much."

But taking his bearings from what this subset of foundations stands for, that is what they emblemize or represent, he suggests that they are really quite significant, for they enact liberal values by demonstrating a central quest of the liberal society: how to attach private wealth to public goods without encroaching on individual freedom.

So, the question that naturally presents itself is this: Is Ken Prewitt's diagnosis correct, both about what foundations do and do not do, as well as why they are significant? Or, to be just a bit more specific, and perhaps provocative, is Ken right to insist that foundations are really marginal rather than central actors even when it comes to their allegedly core mission, namely, significant social change or, as many would put it, advancing systemic change.

But first, let's make sure that we have the argument right. Let's give Ken a chance to summarize his argument, and let me give you all a chance to ask for any clarification you might need.

KENNETH PREWITT: I stand as charged, though add a footnote that has nothing to do with your representation, but with my own presentation: I wish the paper had a paragraph, and will in a later version, noting that there have been times when foundations had resources that scaled to their ambitions, as was the case for Rockefeller and Carnegie in the teens and twenties, and in some respects even later, and as is true today of the Gates Foundation. When this occurs, when resources match announced ambitions, then my language about marginality is too strong—though I believe I applied it in connection with late twentieth century, large-scale transformations.

If you look at what I was looking at in making the argument—at annual reports today of the twenty or thirty major foundations—the claims are really extraordinary compared to the resources that they bring to bear to realize those claims.

But that's only protecting myself from that one sentence a little bit. But otherwise no qualms at all.

MONTGOMERY BROWN: I have two questions. One of them is quite straightforward. Has the paper that was sent around in the e-mail message been revised in the last two weeks or so?

KENNETH PREWITT: No. But I'm going to this afternoon, after this meeting.
[Laughter.]

MONTGOMERY BROWN: Could you speak a little bit about why you decided to restrict your discussion of foundations just to the biggest ones, the ones, as you define it, that are large enough to have professional staff and so forth?

Some of the figures you cite for the percentage of wealth and giving that these foundations represent suggest that the answer can't simply be because everything else is rounding error in terms of effect. Since that's not the case, why limit the discussion to just biggest ones?

KENNETH PREWITT: I don't have an analytic or persuasive answer to that question. I was simply responding to a specific request. Your asking the question as you have makes me wonder if I've done a good job on the task.

Let me say a word or two about the task, why this little paper even happened. For the Bertelsmann Foundation I had written an earlier version, concluding then that the justification for foundations is their contribution to pluralism. On further reflection, I was not happy with that paper.

This version was stimulated by a request that I keynote a conference designed, as I understood it, to tell a French audience why France should have a more robust private foundation sector. Others in the room are important participants in the conference. I believe that the conference organizer, in making the request, had Rockefeller, Ford, Carnegie, etc. in mind. So I restricted myself accordingly, to try to be responsive to what I took to be the rationale for the conference and my particular presentation. Nothing more complicated than that.

MONTGOMERY BROWN: For clarity's sake, I'd just add that I don't think the main points of the paper hinge on whether you're speaking about foundations as a whole or merely the largest ones, but you specifically indicate early in the paper that you mean to think just about the larger foundations, and so I wondered if there was more to it in your mind.

JOEL SCHWARTZ: I think that you've just given us a historical explanation of your paper's focus on foundations—that's what you were asked to speak about. But I suspect that in addition to that, the reason for the focus on foundations—not the nonprofit sector as a whole, or the philanthropic sector as a whole—is that foundations, at least the large ones that you're talking about, seem to be more uncontrolled and uncontrollable than other agents in the philanthropic sector.

A charity that needs to raise money faces at least some sort of crude marketplace test of its effectiveness; if people think it's not doing a good job, they'll stop giving to it, and it'll go out of business. Whereas the foundation, because of its endowment, can in principle go on forever, and there isn't really any sort of check on the effectiveness of what it's doing. Is that explanation of your focus correct?

KENNETH PREWITT: That would be the chief reason. There is another, of perhaps lesser importance. I find the literature on foundations sloppy because it blurs categories. You can read a sentence that it's "civil society" that is responsible for "x," and then later in the same paragraph the term "charitable giving" is used interchangeably with "civil society" and it is now the source of "x." In the next paragraph it turns out that philanthropy has made "x" what it is.

When the terms "civil society," "philanthropy," "charity," and "foundations" are used interchangeably, it is hard to sort out what is really going on. So I am partly motivated to help sharpen the categories and perhaps improve analysis along the way. But your comment points to a more important issue.

It is this large scale permanent endowment which allows a program or strategy, whether spend-out is five or five and a half percent, to go on for a very, very long time without having to

check in with any external oversight. And if a change is considered, that too is at the pleasure of the foundation. Few institutions can wake up tomorrow morning—as, in principle, can Ford or MacArthur—and say, “The portfolio we’re working on isn’t very interesting to us. We’ll shift it radically.” And then start doing an entirely different set of things. Who else can do that in American society—with money? Certainly there are small-scale efforts that might do so, but then they have to go out and raise the money to make anything serious happen.

DAVID HAMMACK: I had a question about the shaping of the paper that you partly answered but I wondered whether you would comment further about it. And you list achievements of foundations at a couple of points in the paper, some that you’ve been struck by and some that the Foundation Center recommends—foundations used as examples.

And I was struck that they didn’t include the transformation of the colleges in the United States into the research universities which was the project of the Rockefeller and Carnegie foundations, supplemented by Guggenheim and reinforced by the Rhodes Scholarships.

There is a whole array of institutions and new honors and so forth that were created in a burst. It has seemed to me that that was an intervention in a context where religious entities had dominant influence over higher education, and education in general in the United States. And that was an intervention to say, “You have to end that or put it to one side and emphasize science.” And that’s a major cultural shift. It obviously wasn’t done only by the foundations but that’s the initial spurt. And they, in a way, have lived off the intellectual capital, the cultural capital that came from doing that ever since.

KENNETH PREWITT: Well, with much hesitancy, I’m about to argue with a serious historian about history. I would have located the shift of the clerically dominated, college-based higher education system to the secular university system well before private philanthropy, by as much as thirty or forty years.

I would give emphasis to how the social science associations in the 1870s and ‘80s became the social science disciplines, and how adding professional schools—medicine, law—to Hopkins, Columbia, Harvard, and Yale—again, in the latter part of the nineteenth century—is what made them universities.

I read this history as religious authority being usurped by the secular, initially reform-minded social scientists, who asserted themselves as the authoritative interpreters of the “social problem” well before the foundations got there. So my argument with you would be that I wouldn’t see this as a foundation-led transformation.

I think later that something quite significant happens, abetted with foundation money. This was, in a sense, to put public thinking into private institutions, thinking here of the National Bureau of Economic Research, the Social Science Research Council, the Brookings Institution, the National Research Council. This was a moment in history when there was a why-should-you-have-a government-do-that-kind-of-policy thinking, as indicated by Rockefeller funding the New York based—I forget the—

DAVID HAMMACK: Federal Research Bureau?

KENNETH PREWITT: Yes, exactly. In fact, Jim will either agree or disagree. If he disagrees, I have to back-peddle...

JAMES A. SMITH: So far I agree.

KENNETH PREWITT: Good, then I should stop right here. But to conclude, I would see that as a much more important transformation of the way we do our intellectual work in this

country. It's one of the interesting questions to ask the French, for example. Are they prepared to let the private sector do public thinking with private money?

They're going to say, "No, that's what we have a civil service for. That's what we have the *école* for. We don't need a vast extra-governmental apparatus to do this kind of thinking about public policy." Jim's obviously written a book on that.

So, anyway, I guess I'm actually—tell me if I'm wrong, but I would have attributed the arrival of the university as the basic institution of higher education to be pre the availability of serious foundation funding.

DAVID HAMMACK: In general, I agree with you that it's a much bigger story, and that the new research universities had many sponsors, not just the Carnegie and Rockefeller foundations. One of the concerns I have about the literature about the historical development is there's a tendency just to look one at a time at foundations or donors and exaggerate their influence and I think you're quite right about that.

But I think we too often ignore the role of other private institutions in the United States of the nineteenth century, and in particular we ignore the very important public roles played by the large Protestant denominations and the journals that were associated with them. They were clearly beginning to lose influence in the 1870s and 1880s, but they hadn't yet given up their major influence, I don't think, at that point.

At the beginning of the 1890s it still seemed that Rockefeller might well put his money behind Baptist causes. Putting that money behind the non-sectarian research university and all the related institutions that supported it opened up a new configuration of institutions.

KENNETH PREWITT: No. And as we all know, University of Chicago was one of those small Baptist colleges which then became something very, very different because of the money.

WILFRED MCCLAY: One of the things I found most persuasive in your paper was your introduction of the notion of the weak-state tradition in America. And that, along with a strong commitment to a relatively less regulated capitalist economy, provides a rationale for the bringing into being of these kinds of foundations. You describe them as institutions that link private funds to public purposes. It puts that very nicely.

But then I wonder. You're presenting this paper to the French, who don't have either of those traditions, of a weak state and consequently of a relatively less regulated economy. Is there any way you can extract from this American example something that would be persuasive to them? That's the question I'm left with at the end of your paper.

KENNETH PREWITT: Well, quite fair. You're asked to do this and so you decide you'll do it. But, I must say, I can't imagine why the French would invent a sector like ours, would shift the money and rearrange the taxation system in order to make sure that these kinds of institutions emerge.

My guess, if the French do any—and I'm not an expert on France, I don't know if anybody in the room is, so if they are I defer to them on this issue—but my guess is that the most that France will accommodate is some community foundation development. I doubt that France will get close to inventing the kind of system we have. But somebody hopes that they will and that's the background to the conference for which my paper was prepared.

JAMES A. SMITH: I think there are at least two reasons motivating the French as they look at the U.S. foundation sector. The first is that they have seen the growing demands on their welfare state. The government's budgetary constraints have led to a series of legislative proposals designed to make it easier to incorporate foundations and other nongovernmental organizations

and to increase the tax incentives for charitable giving. The second reason is that some people in France have seen that American foundations have been able, historically, to deal with the issues of diversity in our very heterogeneous society. As the French confront the problems of their own increasingly diverse society they are looking at the role of the nonprofit sector. It seems that they are particularly interested in philanthropy's role in culture, education, and scientific research, areas in which they have had such a strong tradition of state support. In culture, they have actually benefited from American philanthropy through the many "friends-of" organization such as American Friends of the Louvre and Friends of Versailles.

WILFRED MCCLAY: That would be quite a change.

ALAN ABRAMSON: The traditional argument, or one of the traditional arguments, that a role of foundations is to innovate and then government will come in and, sort of—the Ford Foundation, for example... Under which of these explanations is that dismissed?

[Laughter.]

KENNETH PREWITT: Well, this goes back to how I edited myself before I started to talk about whether you have the resources at scale to do that. I think there are—and one can find examples—instances where innovation was taken to scale by non-foundation funding sources. The War on Poverty example, and area studies, can be cited.

The slight problem with that model of justification is that we only know the success stories. The number of things that foundations thought they were going to innovate that then would be taken to scale with somebody else's money constitutes a large denominator for calculating the success rate.

But I think, Alan, you're right. It makes no sense to fail to recognize that in the entire sector over the last hundred years, there were innovations that did go to scale. And that is making "social change" happen at a magnitude that merits attention.

My cheat was to say that if you look at the last quarter, half century, it's much, much harder to find those things. If you look at what really did transform, I think, American society over the last thirty or forty years, the transformation did not occur because of foundation funds. However, insofar as there have been innovations which have been idea-driven rather than social-movement- or technologically-driven, in those major social changes it is fair to argue that the philanthropic sector was disproportionately influential or at least was seriously influential. One needs some empirical work on this, of course, instead of just opinionating all the time. But my guess is, you'd be able to make a stronger argument.

ELIZABETH LYNN: It interested me that you tied the claims for innovation and risk-taking to time frame. That was a slightly different argument than I've heard, if you look at some of the early, 1970s commission reports, like the Peterson, I believe it is, and the Filer Commission reports.

Claims for innovations were more tied to independence of judgment, and freedom of resources. But here, it seems to me, you are making a slightly different claim when you relate it to time frame. Did other people observe that and think that it holds water? That, in fact, the capacity to work over a permissive range of time, as you describe it, allows foundations to take certain risks that other institutions don't?

Because, if that's the case, I think the current pressure to produce outcomes in a much shorter period of time—I mean, doesn't the Ford Foundation, for instance, have more of a policy of bringing people in for limited terms to do big things?

KENNETH PREWITT: Right.

ELIZABETH LYNN: Might there be a shift going on there that undercuts the capacity for innovation?

KENNETH PREWITT: Yes, let me respond to that in two ways. One of which is—well, use the staffing as a model. I think it's ludicrous that foundations have this in-and-out system. I think if you get an officer who is not any good you ought to fire her the next day. And if you get a good one, you ought to keep her around as long as she's doing good work. I mean, this idea that somehow seven years, or eight years, is the right unit of analysis for a foundation officer has no roots in anything that I can find.

But I think it's indicative of what you're suggesting—that foundations, like many, many other institutions in society, are up against performance indicators or showing payoffs. If the trustees say "Look, we've been doing this for eleven years. What have you accomplished?" And the answer is "It isn't an eleven year project, it's a thirty-five year project." And the trustee says "Well, I want to go home and brag about something that happened on my watch."

You know, then you begin to get that pressure and you begin to feel it and you begin to respond to it. You lose the long time frame. That's an internal weakening, if you will, of the institutional culture.

And the other thing, to go back to Jim's rather important point, and I want to emphasize it, is the extent to which the foundation sector is viewed from outside as a place that picks up the slack. And whether it's cultural funding or social welfare, it pushes foundations to do things that they historically were not doing. It pushes them back into service delivery, charity.

That, I'm convinced, is much more prevalent in the American foundation sector than it was thirty, forty years ago. Because they feel obligated and they're partly protecting themselves. If they go out and really show they're doing good right now, then they're not going to get a Congressional investigation looking over their shoulder or people saying they have to have a lower or higher payout rate, or whatever it might be.

So they're buying autonomy, in effect, and in a complicated way becoming more accountable, at least, more responsive, if not accountable. But your point is very important and I haven't thought that through. Whether overall their time frame is shifting.

This is why I want to go back to Gates for a second. Gates is the only foundation on the American scene right now with a resource-base that reasonably matches with program goals—if Gates wants to do ten thousand libraries with computers, he can do it. If he wants to do AIDS vaccine for twenty-five years, and that's how long it's going to take and going to require a huge investment, indicators are that he will do it.

Gates is a very, very focused foundation that is spending vast amounts of money. That's the old 1920s and '30s model where you can sit down and say, "This is this big problem, international public health, and we're going to go after it. Whatever pieces, whether it's an AIDS vaccine, reforming WHO, creating a training network for public health officers we'll do it." The rest of the foundations can't do that anymore. At least as individual foundations, and that is why they "partner" so much.

That's a whole separate thing which I didn't talk about in the paper. But now that I've mentioned it, I note that partnering is not necessarily a good thing. You're reducing a number of windows that are open to the grantee community. It is a lot of shifting money back and forth. "You partner with my initiative, and I'll partner with your initiative." Nothing new has been added. It's just that you now call it a Carnegie partnership with Ford or a Ford partnership with Rockefeller, or whatever. It's a language people have bought into without always carefully asking

what its payoff is. Take a few counter-examples. Mellon and Sloan, the last time I looked, were effective operations with very little “partnering” arrangements,

AMY KASS: So, are you saying that insofar as they restrict their time frame, foundations are now being more reactive than they are pro-active?

KENNETH PREWITT: I hadn’t thought about that until Elizabeth asked the question. But I think that’s a reasonable inference.

ELIZABETH LYNN: If I could follow up very briefly. The foundation that I’m most familiar with is the Lilly Endowment. And I do think that it is an exception to that rule. It would be another foundation for you to look at that’s had a long term commitment in the area of American religion, theological education, and resources that are significant for a fairly small realm of endeavor.

And I’m continually struck by the longevity of that commitment and the way it has played out in the lives of various institutions. And I wonder with other foundations if that might be an example to learn from.

KENNETH PREWITT: And I want to be a little careful, now that I realize all my friends might see this. I do think there are foundations today, and important foundations, that are sticking with rather long-term agendas. The Lilly example is a good example.

Rockefeller Foundation is still doing agriculture the way it was doing agriculture fifty years ago—changing as appropriate, with new institutions, new strategies, and doing the gene rather than the green revolution. But fundamentally still going after the food crops that will feed the poor of the world. And that agenda has been fairly continuous.

And in a complicated way the Ford Foundation is still sticking with how do you de-parochialize American higher education. This started with area studies in the 1950s and there is now a new iteration with a different focus and vocabulary. But nevertheless, you can connect the dots. Even though officers come and go, and strategic plans come and go, you can trace a underlying goal across a half-century.

So it’s unfair for me to say that the time frame is—the officer time frame is a sub-issue from whether the program time frame has been as condensed. Insofar as it has, insofar as they are under pressure to show results, then I think it would have the result that Amy mentioned.

DAVID REINGOLD: I want to explore one possible rationale: Why did the foundation world emerge in the U.S. and pretty much nowhere else? It’s not a social change argument, but it’s a social control argument—setting up a set of quasi-democratic institutions, known as foundations, that are separate from, but in some sense can rival the legitimate state.

It creates an environment where much of the challenges to the legitimacy of the state can be absorbed in a way that doesn’t end up, ultimately, in a confrontational manner, really challenging the strength of democratic institutions, mainly the state.

And the rise of philanthropy is really much more a bi-product of the maturation of democratic institutions, mainly the state, more than it is a bi-product of a number of the other institutional forces that go along with the development of our democratic state.

So, it’s really a function of the maturation of the democratic state and has the beneficial bi-product of being able to siphon away the most toxic confrontational dimensions that emerge in democratic societies to protect the state from being overcome by elites, essentially, taking aim at democracy, with a capital D, and challenging its legitimacy.

I think these types of arguments deserve some attention. I don’t know if you’ve thought about that.

KENNETH PREWITT: No, I haven't. That's a very interesting hypothesis. Spellman College is a for instance. This was a pretty toxic issue for its time—educating black women. And the fact that Rockefeller could do this, and take some of the pressure off, is, I guess...

DAVID REINGOLD: I'm sorry to interrupt. The settlement house movement is, I think, very much in line with that in terms of trying to release pressure from mass immigration in the 1870s, 1880s, 1890s and beyond and the pressures and the conflict that was emerging. It does seem to have the function of a release valve.

KENNETH PREWITT: And would your argument be then—I'm going to go back to your maturation-democracy point. You're suggesting the particular way in which our democratic institutions matured, was what? I'm trying to get the causal arrow straight.

DAVID REINGOLD: I'm not sure whether or not causality is possible in this kind of analysis. I would encourage you to explore a comparative period because ultimately you're asking a question that—well, it was good to see the Weber reference at the end.

It's a very similar question to the one that Weber set out to answer. And ultimately his analysis—when you went out and started doing the comparative work, a lot of the underlying causal inferences start to get rather suspect. They just don't hold up. And I guess I'd be interested to see a bit more of that. So I'm not sure what the causal direction is.

KIMBERLY DENNIS: I like your idea in theory—it sounds nice. But looking at the reality, I think you can point to lots of examples where the philanthropic sector, instead of being a release valve, has ratcheted up the public dissonance over different issues.

DAVID REINGOLD: Dissonance in conflict. Foundations channel dissonance in a way that democratic institutions can absorb where it doesn't challenge their legitimacy.

KIMBERLY DENNIS: Well, to the extent foundations support the kind of work that goes mucking around in the policy sector—I mean, take an issue, Ford's support for women's issues and that sort of thing. That's something that seeped a lot of dissonance into the whole political process, a lot of minority issues and that sort of thing that have been promoted by the philanthropic world.

You can look at any number of issues like that where it seems to me that foundations have taken on a higher and more pressured, more high-pitched kind of role in the whole political process and the policy world. So, I like the idea in theory. I'm just not sure it works that way.

AMY KASS: The idea that you like, in theory, is?

KIMBERLY DENNIS: Well, I would like the idea that the philanthropic sector provides this kind of release valve. It takes things out of the political sector, but instead, I think it puts a lot of things into the political sector, basically.

KENNETH PREWITT: Can I, though, ask you a question, using the example you gave, the feminist movement? The way foundation funds returned it to the policy sector was by making it more professional, or, some have suggested, by taming it.

That is, it turned something that was pretty feisty into women's studies in universities and—I don't think deliberately. But that's what Ford Foundation knew how to do and it did what it knew how to do with respect to a new social force.

But at least some people would argue that in the process it took the force out of the social force.

AMY KASS: Or extended it.

KENNETH PREWITT: Or extended it, yes. Exactly. You can argue it either way. But if you put it back into the system in a way that made it easier to be absorbed, the result seems to confirm David's point.

But I just don't know. It's a very interesting proposition, whether they put more yeast into the political process than they protect the political process from.

JAMES CEASER: In his paper Dr. Prewitt makes the case that, historically, foundations have fallen well short of their own goals. But the paper leaves open the question—which I would like now to put on the table for discussion—of what are the precise causes or factors that account for this outcome. Addressing this question, I think, is essential for any kind of possible recommendations about the status of foundation law in the future.

Here, it seems to me, are some of the possible factors that could account for the outcome Dr. Prewitt has described. One is, in recent times, an insufficiency of money or resources; foundations cannot accomplish all they want because they lacked, collectively, the means to do so. Another possibility is that the goals or tasks that the foundations have defined are undoable; no one could have accomplished them. A third possibility is poor leadership in our major foundations; a foundation arrangement such as we have might have been able to achieve many of its goals, but the people who have been leading the foundations have just not been up to the task. A final possibility is that the structure of the foundation arrangement itself is defective—that, if you could imagine the best leadership under this arrangement with all the resources available, it will nevertheless be unable to perform well.

After reading this fine paper I'm left wondering what an historical survey of the past tells us about the future. In other words, what policy implications can be drawn from this account? One implication might be well, look, the foundation is not a very good institution as such and that we should just let it die—or else not take it so seriously. Another implication might be that the structure itself is sound and valuable, but that foundations must have more resources: foundations can only hope to accomplish some of their goals if they have the kind of resources they possessed at the very beginning. Another implication might be to begin a "campaign" for different leadership: the people who have been running foundation have been inadequate, and we can imagine that, under the same arrangement we now have, others could replace them and accomplish considerably more.

These, it seem to me, are some of the issues to consider when one thinks about the future. In brief, I would like to shift the focus of discussion of an account of what happened in the past to the implications of this account for the future.

KENNETH PREWITT: I'd like the record to show that I immediately said it's not because of the sorry state of the leadership.

[Laughter.]

AMY KASS: Some might disagree with you.

KENNETH PREWITT: Well, yes. But I would go to the structural comment as follows. Let me use an anecdote. I was hanging around the MacArthur Foundation twenty, twenty-five years ago when it was just getting started. There was Jonas Salk. Murray Gell-Mann, and others saying, "We are not going to be like 'them.'" ("Them" being Carnegie, Ford, and Rockefeller.) "We're going to be different, more innovative, more everything. Just, not like 'them.'"

And I said "In twenty-five years, you will have guidelines; you will have professional officers brought in to manage programs; you will have exactly the structure that they have."

Because there's no way to give money away across a multi-purpose agenda without creating that structure." And they just insisted they were going to be different.

And today, with the one exception of holding onto the "genius program," which was after all a gift to Rod MacArthur, in effect, that's the only little thing that sits out there that isn't like what every other foundation does. It doesn't make it not a good foundation. But it makes it what it is.

I think it's very, very hard to give money away. Go back to Rockefeller, who brought in Frederick Gates because he was worried about being a responsible steward of this money. And it turns out you have to put all this apparatus in to feel like you're discharging your public responsibility as best you can.

So I think it's very hard to be a large-scale foundation in a way that is not like other large-scale foundations. Consider the Gates Foundation, which a few years ago had, what, a half-dozen or dozen people on the staff. Those days are gone. There is now a large professional staff, guidelines, evaluation plans, structures.

JAMES CEASER: It seems to be your position, then, that there is no way that large sums of money can be distributed without many, many constraints coming into existence.

KENNETH PREWITT: Right.

JAMES CEASER: The same would be true of a government distribution of funds as well. So, then the issue or challenge is more general than just the question of foundations. Foundations propose ambitious goals that they want to fulfill, but no human institution could accomplish them—in part because of the constraints involved in giving away money. So, for example, the French use a centralized governmental method for distributing money, but they are going to run into many of the same problems as our foundation system does. Maybe our outcome is more desirable, for pluralistic reasons. I add in passing that if foundations were too successful in accomplishing massive change, they might, in certain circumstances, be too dangerous.

I'm just trying to get the baseline. Foundations fail according to this very high utopian standard of changing the world. Well, that doesn't surprise me. But then we should pose a preliminary question to all the issues we have been considering, namely, what can giving large sums of money away actually hope to accomplish, in a realistic sense?

Or the matter should be judged in a comparative fashion. Forget about fully accomplishing these broad goals. Does the foundation arrangement do just as well as any possible alternative arrangement, maybe even a little bit better, and is it justifiable on the basis of other criteria? Or does it do a worse job?

I am trying here to get our conclusions into line with what the expectations should be.

KENNETH PREWITT: That's a nice way to frame it. Going back to the Lilly example. Lilly is a reasonably wealthy foundation and it does have a very, very sharply defined agenda. And I think Elizabeth's point is quite well taken.

You can say that given what they want to do they're doing a quite good job. So, maybe there's nothing more complicated going on here, Jim, than getting foundations, in their vocabulary and their rhetorical presentation of self, to pull back a little and say "We're not going to eradicate poverty. We are going to try to include more girls in Africa's primary schools by buying them school uniforms." That is a silly example, but one might be less testy about this if foundations were describing program goals that matched their resource base, and then you could look and see if the goals were reached. That is, you could ask your question. "Given what they say they're

going to do and given the resource base, are they reasonably effective?" My guess is, reasonably so.

I'm not sure of, institutionally, the best way to do it better. I do not think it's the quality of people. I think many officers work very hard, are talented, care, and all that sort of stuff. But they do find themselves surrounded by a lot of apparatus which it would be nice to be reasonably free of.

One other thing. Foundations were invented in a moment of American history when we weren't embarrassed by the word "elite," when we weren't embarrassed by the word "judgment," when we weren't embarrassed by being confident of a vision and being willing to implement it. But after the 1969 hearings, and the 1960s more generally, you get a different tone.

The word "elite" disappears. Even the idea of "judgment." Instead, we have an ask-the-grantees-what-they-want kind of thing.

So perhaps there is a cultural as well as structural thing going on. I'm not in that camp that says the foundations are timid and unwilling to take risks. I do think they want to be innovative.

It's in a combination of the structure and the magnitude of the resources against the ambition that I think one would have to look for an answer to your question.

KIMBERLY DENNIS: Do you think foundations could be more effective if instead of focusing on this grand idea of social change they just focused on helping people?

KENNETH PREWITT: Well, certainly. Yeah, I think that's much easier to do.

AMY KASS: Easier? I doubt it. Refocusing would require much more than a change in vocabulary. The notion of social or systemic change has long been so crucial to the self-understanding of many foundations, from the largest to the smallest. It shows itself in the ongoing argument about whether foundations are, in fact, charities—that is, whether they are engaged in philanthropy or charity.

KENNETH PREWITT: Right, right. But saying it is easier to do is not saying I think they should do it. I don't. To cite the example in the paper about earthquakes, should foundations fund the science of plate tectonics? Fund engineering schools? Advocate better building codes? Or simply provide earthquake relief?

It's much easier when there are injured people on the street, to offer help. It's much harder to do plate tectonics in a way that gets to that. And it takes self-confidence to say we're going to do plate tectonics. And if it takes fifty years to get it right, that's how long it's going to take. It's takes a lot of self-confidence. And I think that's hard to generate in the current setting.

CHARLES HALPERN: The paper and this discussion have raised a dozen things that I'd like to spend some hours talking about. I want to come back to the question you posed, Amy, and that is whether we agree with Ken's judgment that foundations are marginal.

Because, as Jim says, if we're thinking about the future, if they are indeed marginal, then we'll treat them like a lot of other marginal institutions: volunteer fire departments and the like. But, if we conclude that they're not marginal, we would give the issues a higher priority.

I want to suggest that you're too quick to reach that judgment, Ken. And that some of the examples you use to support that judgment really don't. For example, when you rely on the growth of the environmental movement as a way of showing the marginality of foundations, I think that you're off-base.

For example, in the late '60s, I was trying to raise money for a new organization which was going to do environmental litigation. And at that time environmental litigation was a very

novel idea. The environmental movement was in its infancy and there was no place to turn but to foundations.

And, in fact, our first approaches to the foundation world to get support instituted a dialogue that has now gone on for forty years. Foundations, non-profits, and advocacy organizations with diverse perspectives have been a critically important element in the very complex process by which the environmental movement has grown and prospered.

If you'd pulled the foundations out of that mix, I think you would have had a much less rich development. And I don't think you would have had the history of environmental legislation and effective administrative and judicial intervention in environmental decision-making that we've seen over the last forty years.

So that, I think, is actually an argument for a critical role for foundations. Can foundations then claim they did it all? No, of course they can't. It was an interaction of many different governmental, non-profit, and for-profit institutions. As you say in your paper, foundation giving often creates new commercial opportunities, and this is an example where that's true. There's a whole range of green industries that have moved into a world that wouldn't have existed if it hadn't been for the foundation participation in this development of the environmental movement.

A much smaller, simpler case—it may not meet your standard of cosmic social change—but if you look at the treatment of mentally retarded people in this country, there has been a sea change in the years since 1970, when foundations first got into this work with mentally retarded people, and now.

In 1970 no public educational institution had a duty to provide publicly-funded education for mentally retarded people. "Take them home, they're yours. You worry what you do with them." That was the law.

And relatively small foundation interventions permitted the groups of activists, parents of mentally retarded children, and professionals, to enter into a new kind of dialogue through courts, through administrative agencies, and through legislatures, which have radically changed that situation.

Could it have happened without the foundation intervention at an early point? Maybe. I would say probably not. Can foundations claim credit for the whole thing? No, of course they can't.

Something else that you touch on at a couple of points, rather gingerly here, that I think has to be considered one of the great social-change interventions of the philanthropic community is the work of the Bradley Foundation, our host here today. They have radically altered the way the welfare state functions in this country and the way we think about the relationship of government and private enterprise.

This has been a huge, successful operation by a group of foundations, which, incidentally, are so small that they probably fall below your radar screen. That is the last point I want to make. The Coors Foundation, the Bradley Foundation, and the Scaife Foundation have partnered with dramatic success in creating new clusters of institutions and new ideas which have, as you say, framed the Thatcher-Reagan revolution. If you look at those smaller foundations you might get a very different story.

Again, the successes of the civil rights movement of the '60s and '70s had a lot to do with consistent funding from tiny foundations. And again, the civil rights movement would have happened anyway. But it would have taken much more time and would surely have had a very different shape if it hadn't been for the critical role of some small foundations.

AMY KASS: Before you respond Ken, let me ask whether anybody else would like to address Charlie's remarks and/or comment, more directly, on whether you agree or disagree with what Ken says is really going on?

PAUL PRIBBENOW: If I may just make a link to what Charlie said. It seems to me that on the front end of the paper, Ken, where you're looking for the traditional justifications of the philanthropic foundation sector, so much of that is an attempt to be empirical and you, in fact, say at one point, there isn't a metric that allows us to make this claim.

And I think those of us who have benefited from—and I think this is a connection to Charlie's point—those of us who have benefited on the receiving side from a Kresge grant that allowed us to build a new building or a MacArthur grant that allowed us to do something in Chicago in the arts, I think we would have an argument about the marginal impact of these institutions. I think you recognize that.

But, even if we accept your argument that the metrics aren't there for the traditional justifications, what you argue at the end of the paper—maybe this is to Jim's point—begs the question, what is the metric that allows us to argue for the idea of foundations as part of a healthy liberal society? How are we going to know that this idea of foundations is a valuable part of what we're doing? I think that's to Jim's point.

Is it about a certain amount of giving? Is it about a certain kind of pressure, a certain kind of impact in an ongoing way? And I guess that the addition of that sort of call for accountability really is an extension of the paper, because I think even if we accept the general argument that you can't make the traditional justifications for foundations but accept this theoretical idea of why foundations should exist in a liberal democracy, then the question becomes, what accountability does the sector have to the public whose interest it is attempting to pursue in some way.

I have a concrete story that strikes me as one of the ways this call for accountability plays out, and actually the story illustrates a challenge to the philanthropic sector as it attempts to engage its publics. I was part of an institution that was the beneficiary of a number of grants from the Lilly Endowment and I remember one time that Lilly sent out, mid-cycle, in a major grant program, a note to its grantees saying "This isn't about reports, this isn't about quarterly expense statements. We want to know how this grant is working and what we could do better to engage you in the work we've undertaken across the state."

And that was a fascinating moment to me because it was, in a sense, the Lilly Endowment pursuing accountability with the publics that it was attempting to engage. I thought that was an intriguing example of what the sector can do that actually would allow it to gather some evidence that it is attempting to honor the public's interests.

So, in summary, you raise the metric question on the front end of your paper. And, again, we can argue about whether it's accurate or not. But then in the last section of the paper you offer more of the idea of where these foundations fit in liberal society without reference to potential metrics for measuring such a role. I want to know what you think about that issue, about the metrics and broader accountability.

AMY KASS: But, Paul, let me just press you on this for a moment. Are you agreeing with Charlie's point that, in fact, foundations do far more than what Ken Prewitt suggests, that they do far more than help bring causes to public attention?

PAUL PRIBBENOW: Yes. I am agreeing with the point that Charlie and others have made that there's more evidence there of the impact of foundations. And that actually becomes

part, it seems to me, of the metric related to the role of foundations in a liberal society and opens up a possible understanding of foundation impact.

AMY KASS: On this point, does anybody else want to weigh in?

DAVID REINGOLD: Can I say something very quickly?

AMY KASS: Yes.

DAVID REINGOLD: Impact for whom? I think it really depends what the ultimate goal is. If it is some kind of metaphysical change or some kind of global change, you know, that's one thing. If it's feeding somebody who happens to be hungry, that's another thing. Changing institutions is a whole other dimension.

And I think if you really started to peel away the layers, my hunch is, if you really started mapping out where these—how much has been invested, where it's going, what the actual tangible benefits are that can be captured, both in terms of the softer side of awareness raising, and then on the harder side of bricks and mortar type projects, my sense is that you'd probably be struck by the very incremental nature of the work and the results and the fact that it, in rare instances, accumulates to impacts that come close to the hyperbole used in the foundation world.

So my sense is, I think Ken's got it more right than he's got it wrong. But I think it's a complicated enough question that I don't think that there is one single answer. It's going to depend on whom the benefits are for.

JOEL SCHWARTZ: I agree with all of that, but in some sense I think that it also poses a problem for the paper. Your paper makes a theoretical case for the foundation that I find persuasive, as far as it goes. The foundation offers a way of using private funds to serve the public good, with minimal state intervention.

All of that I think is right. But that argument would need to be buttressed by some real empirical analysis, which couldn't be done in a brief essay, and would instead require a mega-volume. Nevertheless, I still think you have to come to grips with the question of what it means to serve the public good; different foundations will have different visions of what the public good is.

And those conceptions aren't subject to checks at the polling place or in the market; unlike economic enterprises and governing bodies, foundations aren't constrained by market or political forces as they pursue their particular visions of the public good.

So to make the case persuasively that foundations are a force for good, it seems to me that you'd need to test their visions of the public good, by looking at a representative number of grants made by these giant foundations, to determine whether or not the grants actually achieved good things.

I realize that you weren't trying to offer an empirical analysis in the paper. But I still think that a persuasive defense of the foundation would require that sort of detailed empirical analysis of some of the grants that foundations actually make.

DAVID SMITH: Actually, I'm not sure I agree. I thought the basic point of Ken's paper was that the existence of foundations, the power foundations exercise, is justified because it coheres with our basic political commitments, not on a consequentialist basis but on the basis of its coherence with our fundamental objectives, principles.

I wish that Ken hadn't so quickly and crisply rejected the discussion of the relationship between foundations and pluralism—because you can have pluralism without foundations, but you can't have foundations of the kind we have without pluralism.

Foundations are quite a radical kind of political entity. If you really wanted an omni-competent, all-powerful state, you'd never allow these things to exist. They're controlled by the

dead hand of the past to a degree. That's the reason Jefferson hated the concept; he thought the Dartmouth College Case was wrongly decided. The people should be able to control how their resources are used for the public good through their elected political representatives. He was right this far: there have to be some moral constraints on what foundations can do. If there are no such constraints, it's a dangerous kind of power, as Ken points out.

But a case can be made for them. Without the enablement of a strong nonprofit sector—of which foundations are a key component—persons with money at the time they die really just have two options. One is, let it go to the government and public in taxation. Another is, shelter it all and keep it within the family. The nonprofit sector in general, and for persons of significant resources the possibility of creating a foundation opens up a third option. We can dedicate this money to the public good and it allows us to have a kind of immortal effect on society as it goes on. That's an interesting kind of liberty.

This principle falls a little below the radar screen of our discussion because it is, appropriately, for our purposes today, constrained to big foundations. So it's a little hard to think "Gee wiz, good, we gave Mr. Rockefeller some liberty." He had that already! But if you think of the expressive side of it, it is important. In fact size makes a difference. It's one thing if you've got a foundation with a million dollars. It's another thing if you've got a foundation with a several billions of dollars, or hundreds of billions of dollars. We ought to consider whether there should be different constraints on the kinds of things foundations can and should do. Maybe you should argue that there have to be public directors with a foundation after it gets to a certain size.

WILFRED MCCLAY: I agree that all these empirical observations are hard to get your arms around and would take a lot of work. But it seems to me that there's something simpler, even though it's even more ethereal, to be considered. And that's the whole question of what the word "public" means.

I find that I'm one of these people who, when he hears the word "public," takes the safety off his sling shot, if not his revolver. Because I always have the feeling that something is about to be presented as being in the interest of everyone except me or my group, and that it will be shrouded in this wonderful term, "the public interest."

It's a Progressive-era thing, this whole notion that "the public" is something that stands beyond "the interests," beyond the messiness of conflict and politics. And there's something to be said for that high-minded aim. But there's also something to be said for the idea that interests are always in play, and that the foundations themselves become an interest, either individually, or as a sector. And that they equally need to be guarded, particularly against their operating as kind of a private-sector Brussels elite, one that doesn't have any kind of accountability to a larger, more many-faceted, and maybe more boisterous sense of the public interest.

That's why I think that—and let me make full disclosure here, since I have an association with the National Endowment for the Humanities—the NEH does a better job in giving out their relatively small grants than do many of the larger private foundations that are less encumbered than NEH. Why is this? It's precisely because NEH has such a high level of professional and political accountability. Presidential administrations change; parties in power change; NEH Chairmen change; members of the advisory board change

JOEL SCHWARTZ: The staff goes on forever.

[Laughter.]

WILFRED MCCLAY: That was spoken by a member of the NEH staff.

[Laughter.]

WILFRED MCCLAY: And I just think—now this is admittedly just an anecdote—but I think by contrast of a friend of mine who is a radio producer, and has been approached several times by a very large and flush private foundation I won't name. It wanted him to produce one or more radio shows that would be syndicated on National Public Radio. He finally said "Why are you doing this? Why are you badgering me about this?"

And the response was, "Oh. Well, we commissioned a survey, meant to determine how the American public knows about our foundation. And the answer was overwhelmingly, they know from the credits given at the beginning and end of shows on National Public Radio. So we concluded that we needed to go out and support people doing public-radio shows."

In what sense is this serving any interest other than that of Foundation X, at least in any direct and premeditated way? So I think we need a better way of thinking about what it means to be in "the public interest," and not to take those words at face value. Which is to say, if you don't have that right, what you really mean by "the public," the whole project will be flawed from the very beginning.

Can I say one other thing? I thought there was an interesting kind of buried bit of moral philosophy in your paper that I want to encourage you either to acknowledge or to say "No, no, no. I didn't mean anything like that."

And that is that when you said of the foundation—I'm sure everybody was as jolted as I was by this statement in the penultimate paragraph—that "it need not do its job well," that was a wonderfully provocative sentence which goes to the whole question of consequentiality. It seems to me that you're saying, there's something intrinsic about the existence of this sector that is good, in itself, because it encourages, so to speak, the virtue of giving.

It holds that virtue up, and the act of doing so is in itself a public good—even if you can't point in any empirical way to particular good consequences that flow from it, and even if one believes it might have been done better by, you know, a government agency or some other instrumentality. Were you saying something like that?

AMY KASS: Let me let you off the hook.

[Laughter.]

AMY KASS: Bill, your remark resonates with what Kim Dennis was saying earlier. But what are you really saying about the use of the term "public"? Do you think that whenever somebody speaks about the "public interest" they're really talking about their own political interests? Is that what you're saying?

WILFRED MCCLAY: Well, I think we should certainly be on guard against that possibility. That when Ralph Nader's PIRG apparatus—you know, it's constantly proclaiming itself to be about the public, the public, the public—we should consider that maybe this is, at best, only one particular understanding of the public.

Such an approach is admittedly very different from a corporation nakedly pursuing its interests. It's disinterested in a sense, but it's not entirely disinterested, because it promotes a very particular vision of the public that involves winners and losers.

AMY KASS: Okay. Let's let Ken respond.

KENNETH PREWITT: I won't respond to everything that's been said, much of which is quite useful. On the public issue, I grew up on Lasswell who defined the political man as private motivation projected into the public sector, then rationalized as being in the public interest.

I have no trouble at all with the formulation that you put. In fact, one of my concerns about the foundation sector is, indeed—the democratic process, for all of its messiness is

accountable and I like that about it. And even if it did things less efficiently than alternative ways of doing things, I would still want it done there, as a matter of fact.

But that's my political position. So, I didn't mean at all to suggest that I wouldn't want the robustness of the messy political process to be our fundamental definition of whatever the public interest is. And insofar as they're paying attention to foundations they should be paying attention to whether they are reasonably in accord with it.

I think we have little connective processes, from the messy democracy that is saying "this is the kind of society we want" to the foundations saying "Well, actually the kind of society you ought to be having looks like our image of it. And since we have this money in perpetuity we're going to work it this way." Not an easy issue, but one doesn't want to lose sight of the fact that in this society, the American people go to the election box on a regular basis and affirm or announce what kind of society they want. And Nadar will not get 50% of the vote.

[Laughter.]

KENNETH PREWITT: Anyway, let me quickly get to David's point. David, there is a different way to spend that money, that is, a way other than having it taxed or sheltered in foundations. There's a huge not-for-profit sector out there that has needs.

People with money can endow symphonies or art museums or universities and much, much, much of the money is being spent that way. Or the Red Cross, or give the money directly to charity, or to high-powered science; even a space probe.

DAVID SMITH: But what if I have a special concern that is novel and not widely shared? For example, from the nineteenth century, with poor boys in Philadelphia.

KENNETH PREWITT: Well, but, you can spend your money that way. I mean, any individual who's—what's the number, several trillions of dollars is going to turn over in the next couple of decades? You don't need foundations to spend that money. That's all I'm saying.

It's one of the places. That's why it's only two percent of the action. It's one of the places to spend it but you don't need them in order to keep the money from either being taxed or sheltered.

I won't respond to everything and getting the metric right is critical. And being more empirical about this than my paper is but should become. But, for better or for worse. I'm not going to do that work. I hope somebody does and when they do they can throw this paper away.

[Laughter.]

KENNETH PREWITT: It will be useful to have real facts.

But I do have to respond to Charlie's comment. Not to be unfair, but it's a classic instance of seeing the world from inside looking out, rather than from the world that's out there trying to find out what mattered.

There are two big, new books out on the Civil Rights era—Hugh Graham's, called *The Civil Rights Era*, and John Skrentny's *The Minority Rights Revolution*. These are big, important, well-researched books. If you read them, it's remarkable how little they had to pay attention to the Ford Foundation or the Rockefeller Foundation in order to tell their story.

Now, from time to time you encounter a sentence or two that says "And the Ford Foundation made a really useful grant to 'x'." But the big sweep of the Civil Rights era and the minority rights revolution that comes out of it is told with very little reference to foundations.

If you were telling that same story from inside Ford or Rockefeller, you would tell it very differently. That doesn't make it wrong. But I just want to be careful that we don't look to the people who actually were inside trying to make something happen as the evidence that we need.

I don't know what's going to happen when the real history of the environmental movement is written fifty years from now. I can tell you they're not going to look to the foundations for having done climate science because that came out of public funding. And the environmental movement was very much energized by the global warming debate.

I think one can find examples, and environmental law is a good one, where foundation funds mattered. But the big energy came from membership-based organizations. And the proportion of their funding that came from foundations as they became big, important membership organizations is quite small. Though it is still untaxed money.

I don't want for a minute to say that foundations haven't done important things, or to say that they are inefficient and fail to make things happen. That would be silly. And I'm not even saying that there's somebody else out there that can do it better.

But consider the Reagan-Thatcher revolution (and this is not too strong a word) and Bradley-Scaife-Coors investment. On the one hand, foundation funds from the four sisters were intelligently spent, yielding a higher per dollar payoff than perhaps any other foundation spending going on in those years.

On the other hand, not for a minute would I attribute the outcome to that investment. For one thing, Thatcher didn't need it to create the Thatcher revolution. And if there is little doubt that the funds helped shaped the language of the Reagan revolution, and that is not trivial, the Reagan revolution started with Goldwater's speech in '64, not with foundation programs.

That isn't to say it doesn't matter. And it isn't to say it didn't matter in environmental legislation. But one needs to step back and put the foundations in perspective, and to realize that many of the forces changing environmental practice or welfare approaches were totally independent of foundation money. That's all my point is. If we want to tell the story about how some big kinds of things happened, we've got to—I'll give you one other example of that. The MacArthur foundation is very proud of what many refer to as its "genius" awards. Several years ago they convened a small group to discuss how this program might be evaluated. I recall recommending a "double-blind" design. That is, do not reveal either to the evaluators or to the award recipients the purpose of the evaluation. Perhaps label it a study of career trajectories. With no reference to MacArthur, simply ask questions that probe into career influences and why the study subjects choose the projects or made the career choices they did.

In such a design, if the MacArthur award is identified as "what really made a difference," you know something. And if the award appears as one among many influences—a faculty mentor in graduate school, an early residency in an artist colony or internship in a lab, an inspiration that led to an artistic insight, a co-author from whom one learned—you assess the importance of the award differently.

Whatever the result—and whether it would be 100% or 10% who reported that the award was the critical factor in their work and career is an empirical question—you would have a truer sense of the importance of the program than by sending out an evaluator to ask the awardee how important the award was.

Incidentally, my recommendation was not taken up. But that is not the point here. I am suggesting that if you assess foundations from inside the loop in which money is transferred from foundation to grantee, you get a biased result. And yet this is what the vast majority of literature on the "importance of foundations" does, including of course what foundations themselves produce to justify themselves. I don't view this as dishonest so much as analytically useless. The better design is to start with the substantive outcome—the public health movement, changes in

civil rights protections, bringing African art into the mainstream of art history—and work backward to see to assess the relative influence of foundation support.

WILLIAM SCHAMBRA: Just a quick point, another problem with the inside view—this goes to the argument about children with disabilities. That wasn't the first philanthropic agenda with regard to children with disabilities.

The first philanthropic agenda was eugenics. When we tote up the positives of the foundation world, we often don't pay any attention whatsoever to a very substantial black mark in the history of foundations, which is, the Rockefeller and the Carnegie engagement in Cold Spring Harbor and the eugenics experiments that led to the kinds of horrors that are now, in fact, beginning to surface in the news.

Some people are beginning to track that back indeed to Carnegie and Rockefeller. Edwin Black's *War against the Weak* spends quite a bit of time talking about that. And in last week's *60 Minutes* we had segment about eugenics entitled "America's Deep, Dark Secret." It omitted the mention of foundations but it isn't long that we're going to be able to run away from that.

That also, incidentally, points to this problem of inflated rhetoric. It wasn't just a mistake. It was, in fact, a consequence of a certain inflated rhetoric and a certain inflated understanding of what philanthropy could accomplish by getting to the root causes, rather than simply dealing with the care of disabled children, that led them to pursue the "cause" of disabled children. Indeed, they did—but in a way that we are now obviously horrified by.

ALAN ABRAMSON: Ken, what are your thoughts about the implications of your analysis? You stopped short of answering the "so what" question. In light of your analysis, do you think we have the right amount of foundations? Or should we have more, or less? Is policy regarding foundations appropriate?

KENNETH PREWITT: That's a big question and I will, at length, go on. It's a version of Jim's question, as well. I guess I'm a little worried about how infectious this kind of create-a-foundation moment is. More than once I've been asked to talk about foundations and what they are and what they can be to the new millionaire crowd with comparatively small amounts of money, but who nevertheless want to create foundations.

And some of the big foundations are training them on how to do that. I guess I think that's a little risky. I don't know what it means to have 62,000 foundations and growing. Many of them don't have any money yet.

But it is this immortality gimmick. Immortality when you put your name on a building is fine. The building's going to do whatever it's going to do anyway. But immortality connected to a foundation, especially this enormous proliferation of the family foundation, strikes me as perhaps not the best way we ought to be spending this enormous excess of private wealth that this society has generated. So, I haven't thought about it much, Alan, but that would be my first gut instinct.

Then, the second one—

AMY KASS: Hold on. Would you change your mind if there were a perpetuity clause?

KENNETH PREWITT: I meant to mention that earlier. It would be interesting to see, in terms of time frames and risk and that kind of thing, whether the sunset foundations—and Rosenwald in an earlier period, and more recently Diamond—are markedly different.

But I think a sunset clause is not a bad idea for foundations. It puts the money back into the society during the era in which it was extracted.

If you can't be big enough to be professional maybe you should just give your money to somebody who is professional, whether it's a museum or a university or a charity or whatever.

Give it to somebody who is already professionalized to do this thing and do it well. You might get many fewer of these boutique ego trips that we're now going to get.

[Laughter.]

KIMBERLY DENNIS: To go back to a couple of earlier points: David's point about pluralism and how Ken dismissed it so quickly and then Bill's point about the public interest. Like Bill, I kind of get the hee-bee jee-bees when someone mentions public interest.

I think where I want to start is, I've been troubled, Ken, that you did make this distinction and only focused on the big foundations. And I agree there are huge—there are substantive differences there and it's worth doing. But I think what troubles me about it is it overlooks the fact that our big foundations, and the foundation sector in general, are an outgrowth of America's long tradition of voluntarism that goes way back, as we all know, to the founding.

People were doing a lot of giving before the big foundations came into being. At some point the tax deduction was granted for foundations and I don't know that I'm right about this, but I suspect that's the point at which we started justifying foundations' tax exemption by saying that they are in the public interest. That was the reason they were allowed to have this special tax treatment.

I think we probably did that to justify the tax exemption but I'm not sure. I think it's almost a straw man. I think that our philanthropic sector is really a plurality of private interests. And I actually like that notion better. I think it's the beauty of the philanthropic sector—when you look at all those little mom and pop foundations out there doing what really excites them.

Even when you say it's in the public interest, this is your own interpretation of what the public interest is. Everyone in this room has different interpretations of that.

So I'm sitting here thinking, maybe we should question the whole idea of whether foundations are devoted to the public interest as opposed to a plurality of private interests.

ELIZABETH LYNN: I'm starting to move in a very different direction and I think that this is a sort of fork in the road for us to think about. I was going to say, "Woah. Slow down. This moment in which a person makes a decision to do something public needs to be taken much more seriously and understood."

I thought it was a sort of gap in your paper when you said, "Well, you don't just want to give it to your kids; you don't want just to give it to the government; so you give it publicly." But I talk to lots of people who give, including the cab driver on the way over here who wants to start his own foundation.

[Laughter.]

ELIZABETH LYNN: No, I'm serious.

There is this extraordinary public impulse in our society. It's part of what's not there in other societies. And we talk about it as being public and it is a public regard.

I think one option is to say "Hey. You're really not being public, you're being private." It's all self interest properly understood; Richard Posner can take us there in a minute. Another possibility is to say "Okay. We're talking about being public." Don't we want to talk about being public? Don't we want to think about our different interpretations?

Let's start educating ourselves, in our foundations, in our own giving, and at this moment where we say "I want to do something because it expresses a good," start saying to each other "What is the good you're seeking to express and how does it relate to mine?"

That connects to what you were talking about, the lack of connection. That creates the beginning of a connection between what people want and what philanthropy wants. And it goes

on all the time in our daily lives, where we will say “I’m going to give something, not just to my children and not just to my bank account, or let the government have it”—which I hear frequently from my co-liberal friends—for us to really ask, what is this good? How can we start describing it in a deeper way?

I think that would address what I thought was one of the most wonderful critiques that you have in this paper, that the talk of social change is so—not vacuous, but thin. And yet it’s the talk this foundation world has allowed itself to indulge in for many years and as you said, it’s a talk of our aspirations to one another. Can’t we begin a deeper, more meaningful conversation about our aspirations for public life that acknowledges different interests but doesn’t lose the concept of the public interest?

DAVID HAMMACK: I’ve had a question that’s been provoked by several previous remarks and by your overview about the breadth of foundation claims. I’ve wondered to what extent those claims are a result either of a desire to establish and maintain the legal fiction that the organization is serving the broad public in general, or a desire to exert influence.

When I spent a couple of years at the Russell Sage Foundation, its then-leaders often emphasized that what was most important about that foundation was that it was the first created to serve a general purpose. That was very valuable to Russell Sage’s leaders because it gave them the power to change on a dime, to stop everything and do something else. The foundation had done that once and might well do it again. And the foundation’s leaders liked that sense of capability.

Now, in order to maintain the legal claim to serve a very general purpose, it was necessary to restate it often. But a claim that a foundation serves a general purpose is quite different from a basis for day-to-day activity, or from the purpose of a particular grant.

Another reason to make a broad claim is that everybody is playing poker with regard to influence. And so why not claim a big influence and let somebody call you on it.

[Laughter.]

DAVID HAMMACK: And so those are two explanations as it occurs to me, neither of which is exactly a serious claim, but rather a tactic in two different venues where I think foundations operate. But you’ve talked to more foundation people than I have. And there are very experienced people around the table who could comment very knowledgably about these impressions.

KENNETH PREWITT: Just a footnote on this. As I recall, the 1969 legislation said that foundations should be more transparent, right—that they ought to announce what they were doing. And I think if you go back and look at the early versions, they were mimeographed.

DAVID HAMMACK: They didn’t have to give any information and mostly didn’t.

KENNETH PREWITT: That’s right. And so, the Foundation Center started this movement to promote the release of annual reports. Look at the annual reports today. They’re embarrassing.. These glossy photos, these multicolored lay-outs. This is not in the interest of transparency. It is about self-promotion.

And I consider it one of the worst things that has happened. Because it’s emblematic of how the culture has changed. The poker analogy is not altogether inappropriate. You claim it and by claiming it you try to protect yourself in case you’re not even doing it.

But the extent to which people now claim this unbelievable impact upon the world—they ought to be called on that. And I’m more than happy—and I spent my years in one of them—to call it.

AMY KASS: We'll go just a few moments longer if somebody has something to add.

PAUL PRIBBENOW: I remember this wonderful image that the political philosopher John Courtney Murray offered as a definition of democracy, calling it the intersection of conspiracies. And the work of democracy, he claims, is actually negotiating the intersection of conspiracies and that, of course, means it can go in either direction (from that intersection).

I mean, you can say that these conspiracies, these agendas that we have are private. Or we can say that we have aspirations to be public and you have to do something to account for the public good. I mean, that's the point. And if we don't do something—I come down on the side of Elizabeth more than Kim on this—but if we don't do something someone will do something to us. And this is this way of accountability.

If we don't have—if foundations aren't willing to have genuine conversations about public goods and interests—the truth is, somebody will step in and force them to do so. I'm sure this audience knows about Cullen Murphy's short essay in the *Atlantic* last month (May 2004), where he talks about the accountability of foundations and he compares them to what Cromwell did with the monasteries in England in 1536.

Having been a fundraiser for a lot of years, I know what's happened is that the fundraising profession was fairly immature and was figuring out for itself how to be professional. But as this professional project was underway, government agencies and others started to step in and say, you've got to do things this way because you are violating the public trust.

So it was accountability being imposed on the profession as opposed to the profession standing up and saying "This is who we are and what we serve." It seems to me there's a similar set of issues here about pursuing accountability as opposed to waiting for it to be imposed as various agencies and legislative committees are attempting to do.

So it is the same point, it seems to me. Are we willing to be accountable other than through glossy photographs and annual reports or these unbelievable computer presentations that we all get now from every foundation? The amount of money—if you look and see how much they're spending to produce these things—highlights the fact that they're not really willing to engage and be accountable for the good and the bad of their work on our behalf.

AMY KASS: But by "account," I take it that what Elizabeth was urging was really being able to give an account of what it means to be public and what you mean by public good.

ELIZABETH LYNN: Not just keep an account, but give an account. I think that's—

CHARLES HALPERN: The premise that you start with, Ken—you were talking about charity here and philanthropy there. And they're two different businesses. Philanthropy is not relief of the poor. We're talking about social change, systemic change.

It seems to me the future of philanthropy would best be an effort to bring those two things back together. To look to the motivation of philanthropists and to the bureaucratic staffs that they end up working, particularly in the largest philanthropies.

Because often, I think, particularly with the move toward venture philanthropy, there is an effort to say "Well, we're not in the charity business. Not only aren't we relieving the poor but we are not moving from the inner motivation that used to be considered the very essence of charity."

The way to go forward is to bring the charitable state of mind back into systemic philanthropy.

DAVID REINGOLD: I would say it's there. It's just not highlighted a whole lot. For instance, after September 11th, basically, the philanthropic community's response was "Let's help people." Not, "Let's get at the root causes of terrorism." At least, maybe that's shifted a little bit.

AMY KASS: That's the public's perception more than the philanthropic foundations' perception.

DAVID REINGOLD: I guess I'm a member of the public in that sense.

CHARLES HALPERN: Many of the foundations that were into relieving the immediate suffering did that as a diversion from their main tasks. And they did that and then they went back to business as usual.

You go into some of the foundation offices, the larger, more bureaucratic foundations—and I think size is very crucial here—you don't have much of a feeling of being in a place where the charitable impulse is what's really bringing people to the office in the morning.

KENNETH PREWITT: I have to give you—I'm sorry—just one anecdote. Many foundations, as you know, have programs where if the staff gives a grant to a charity, it is matched. I will leave this foundation unnamed, but once looked at the patterns—matching staff giving (including my own) with what the foundation did in its programmatic. The correlation was close to zero. Fascinating, if you think about it.

I mean, here, as an officer I spent all day long arguing that what was most important was to do "x." And when you give me my little bit of money to spend myself, I go out and do "y." And "y" is much closer to charity than it is to finding the so-called root causes.

AMY KASS: In fact, there's a new study by the Urban Institute ["Attitudes and Practices Concerning Effective Philanthropy," April 2004] which documents exactly this.

KENNETH PREWITT: Is that right?

AMY KASS: There is a great disparity between what foundations practice and support and their attitudes.

KENNETH PREWITT: Yes. Interesting.

JAMES CEASER: I'd give to that charity.

KENNETH PREWITT: I'm sorry. I want to get back to the larger "public good" thing. I think there is a public good, I mean, in the technical sense. There are things that the market doesn't provide that the society needs and we think the government is there in order to provide the public good.

Whether my final argument is right or wrong, it is correct to say that foundations do have a responsibility to give in the spirit of the public good. That doesn't mean that it's not a privately designed image of what the public good is, but that's how they get the tax refund.

Somebody has to say "Yes. That's not using your money to marry your daughter. That's using your money against a not-for-profit obligation." And I do think that the liberal society, especially today, is deeply resistant of government intrusion.

So in this historical moment I think there's a real argument to be made for foundations even if they're not terribly efficient. Even if they're not as re-distributive as they sometimes argue that they are. Though on that part of my argument, influenced by a first-rate paper by Julien Wolpert, I have some rewriting to do which will soften my conclusion. Perhaps in the final version, much will be softened—though not on glossy annual reports.

So I think it's important to get back to that core argument. Is it important in this society at this time to have institutions that are obligated to spend on the public good, but are outside of the enforcement, regulatory, coercive apparatus of the state? And if so, then these are places that do it. And one can make a case for them. And I think that this is a fundamentally different case than whether they did or did not make the environmental movement happen, or are or are not efficient at all the various good things that they intend to do.

So getting the metric right in terms of the real impact is, at least for the sake of this paper, less important to me. Even if I'm wrong, and I've scored them at three and they should be scored at five, or I scored them at three and they should be scored at one, for me is not finally the question, at least for what I'd like to argue in this paper.

KIMBERLY DENNIS: I'm sorry. I can't resist one last comment. I think we're ending this with—still with lots of very blurred visions of what the public interest is. I would argue that making widgets is in the public interest, manufacturing drugs, there are all sort of things that the commercial sector does that are in the public interest.

So it's not clear to me—what does the Lilly Endowment do that's in the public interest by giving money away that's substantially different than what it does making drugs? I mean, it seems to me—it's a whole other discussion.

ELIZABETH LYNN: All I'm saying is it's a discussion. I think that when we use terms like "I want this to be for some public purpose," that there's a wonderful opportunity to think about purpose and what we are actually trying to do for the larger society. That is to say that it's the beginning of a conversation and not the end of one to say that something is for the public good.

JAMES A. SMITH: Well, I would also say that you're working against a several-hundred-year-old tradition of discussion of the public benefit and of charitable purposes. That long precedes the statute of charitable uses and it's well-defined in common law. And even to a degree in civil law on the continent.

I think of the use of the noun "interest" preceded by the adjective "public" as really a confusion of public purposes, public benefit, public welfare and a whole language of "public" that is also linked to public trust. It's a good discussion but it's a very, very old discussion. And you can't overturn it with the noun "interest."

WILFRED MCCLAY: I can't resist making one objection, though. The courts have made the whole notion of what is, for example, a public organization or public space, highly problematic. The Boy Scouts can't operate in San Diego's public park because—you know the argument. So there's a lot at stake in using the word "public."

AMY KASS: Okay.

KENNETH PREWITT: Do I get my last word?

AMY KASS: Go ahead.

KENNETH PREWITT: It's simple. You don't have to answer this but I would love to know whether people in this room believe that the accumulation of private wealth at the magnitude that characterized the robber barons in the latter part of the nineteenth century, and that characterize their cousins in the latter part of the twentieth century, is good for the society.

DAVID SMITH: You don't want us to answer that actually?

KENNETH PREWITT: Yes.

AMY KASS: That's a very good question which, unfortunately, will have to be addressed at another time. We should all think more about it, as well as about Charlie's suggestion about the need to bring together philanthropy and charity. Is that possible? Is it possible to revive the respectability of charity? What would it take to make advocates of systemic change look more favorably on charity?

But there is one more thing that we would all do well to think more about. With the exception of David Smith, we have been conspicuously silent about Ken's final proposition, regarding foundations and liberal values.

So, let's leave with this question. Assuming that foundations do really enact a core tenet of liberal democracy—by living out the way in which private wealth can be attached to public good without encroaching on individual freedom—can we assume that they will continue to do so? Given our current cultural ethos, however you understand it, can we safely assume that foundations can, or will want to, sustain this liberal value?

I am prompted to raise this because the impulse behind the founding of a lot of foundations—especially the big foundations—had to do with a sense of duty, which was, in turn, closely informed by Christian sentiments and teachings. And, as we all know, this sense of duty, as well as its moorings in religious belief and practice, is far less in evidence today.

Unfortunately, with this we have to stop. Again, I want to thank you all for coming. And thank you, Ken, once again, for providing us with such an important and interesting paper.

[Whereupon, at 2:15 p.m., the meeting was adjourned.]